

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>Village of Berrien Springs</u>	County Berrien
Audit Date June 30, 2004	Opinion Date September 23, 2004	Date Accountant Report Submitted To State:	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address 511 Renaissance Drive, Suite 120	City St. Joseph	State MI	ZIP 49085
Accountant Signature 			

Village of Berrien Springs, Michigan

Financial Report with Supplemental Information

June 30, 2004

Village of Berrien Springs, Michigan

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Independent Auditor's Report

To the Village Council
Village of Berrien Springs, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Berrien Springs, Michigan as of and for the year ended June 30, 2004, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Berrien Springs, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Berrien Springs, Michigan as of June 30, 2004 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Village Council
Village of Berrien Springs, Michigan

As described in Note 10, the Village has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related statements, as of July 1, 2003.

Plante & Moran, PLLC

September 23, 2004

Village of Berrien Springs, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the Village of Berrien Springs, Michigan's financial performance provides an overview of the Village's financial activities for the fiscal year ended June 30, 2004. Please read it in conjunction with the Village's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis the following represents the most significant financial highlights for the year ended June 30, 2004:

- State-shared revenue, the Village's second largest revenue source was decreased this year. The Village reacted by cutting back on scheduled overtime, modest pay increases, changing health insurance and life insurance plans, and keeping expenses at a minimum where possible.
- The Village authorized the purchase of Civic Systems, LLC Computer Software, Licenses, Conversion Services and Training in the amount of \$33,250. The old system, Fund Balance, created too many problems, wiped out data and had very slow support.
- The remaining \$340,000 owed by Oronoko Charter Township was received as per the agreement reached during the May 13, 2003 Facilitation regarding the Wastewater Treatment Plant breach of contract by the township. The total received from Oronoko Charter Township from the settlement in the amount of \$520,000 was paid to the Village's Engineering firm Fleis & VandenBrink.
- The Village began a long-term investment in its wastewater treatment system by beginning in phases.
In January of 2004 'Project Phase 1' note was approved for replacement of an existing lift station located on Rose Hill Road in the amount of \$107,000.

In June, 2004 a note in the amount of \$210,000 was approved for 'Project Phase 2004' to replace approximately 2,100 feet of 8" sanitary sewer in Ferry Street from Cass Street to Tudor Road with a 10" sanitary sewer including new manholes and service laterals.
- Small urban Grant awarded to the Village of Berrien Springs in the amount of \$450,000. Work began in June on Ferry Street.
- Michigan Economic Development Corporation Community Development Block Grant was award to the Village of Berrien Springs to improve the downtown infrastructure, help create jobs and assist with community planning projects in the amount of \$200,000. Project is in the plans for next fiscal year. (Project estimated at \$825,657 with anticipated grant from MDOT of \$343,719 and \$282,000 Village match from the Village.)
- One high school co-op position of 20 hours per week was authorized. This is a cost-effective effort to give relief to full time employees and to help cut back on expensive over time.

Village of Berrien Springs, Michigan

Management's Discussion and Analysis (Continued)

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Village as a whole and present a longer-term view of the Village's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Village's operations in more detail than the government-wide financial statements by providing information about the Village's most significant funds. The fiduciary fund statements provide financial information about activities for which the Village acts solely as a trustee or agent for the benefit of those outside of the government.

Village of Berrien Springs, Michigan

Management's Discussion and Analysis (Continued)

The Village as a Whole

The following table shows, in a condensed format, the net assets as of the current date and compared to the prior year:

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Current assets	\$ 2,415,719	\$ 2,058,789	\$ 780,964	\$ 844,465	\$ 3,196,683	\$ 2,903,254
Noncurrent assets	1,502,975	1,442,017	3,543,747	3,335,501	5,046,722	4,777,518
Total assets	3,918,694	3,500,806	4,324,711	4,179,966	8,243,405	7,680,772
Current liabilities	51,895	24,196	528,674	577,617	580,569	601,813
Long-term liabilities	-	5,999	557,948	611,016	557,948	617,015
Total liabilities	51,895	30,195	1,086,622	1,188,633	1,138,517	1,218,828
Net assets:						
Invested in capital assets -						
Net of related debt	\$ 1,338,095	\$ 1,310,994	\$ 2,642,265	\$ 2,724,485	\$ 3,980,360	\$ 4,035,479
Restricted	757,603	29,990	267,056	56,988	1,024,659	86,978
Unrestricted	1,771,101	2,129,627	328,768	209,860	2,099,869	2,339,487
Total net assets	\$ 3,866,799	\$ 3,470,611	\$ 3,238,089	\$ 2,991,333	\$ 7,104,888	\$ 6,461,944

The Village's combined net assets increased 10% percent from a year ago - increasing from \$6,461,944 to \$7,104,888. As we look at the governmental activities separately from the business-type activities, we can see that governmental activities net assets increased 11% from \$3,470,611 to \$3,866,799, while business-type activities increased 8% from \$2,991,333 to \$3,238,089.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations - decreased by \$358,526 for the governmental activities. This represents a decrease of approximately 17% percent. The current level of unrestricted net assets for our governmental activities stands at \$1,771,101, or about 195% percent of expenditures. This is within the targeted range set by the Village during its last budget process.

Village of Berrien Springs, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the changes of the net assets during the current year and as compared to the prior year:

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Revenue						
Program revenue:						
Charges for services	\$ 206,289	\$ 182,021	\$ 962,873	\$ 789,597	\$ 1,169,162	\$ 971,618
Operating grants and contributions	222,217	123,599	-	-	222,217	123,599
Capital grants and contributions	-	-	-	520,000	-	520,000
General revenue:						
Property taxes	583,327	580,697	-	-	583,327	580,697
State-shared revenue	191,842	197,181	-	-	191,842	197,181
Unrestricted investment earnings	18,421	31,073	13,723	16,467	32,144	47,540
Transfers and other revenue	4,580	82,402	-	(75,941)	4,580	6,461
Total revenue	1,226,676	1,196,973	976,596	1,250,123	2,203,272	2,447,096
Program Expenses						
General government	178,452	229,066	-	-	178,452	229,066
Public safety	177,556	273,210	-	-	177,556	273,210
Public works	298,389	362,081	-	-	298,389	362,081
Recreation and culture	176,091	142,083	-	-	176,091	142,083
Water and sewer	-	-	729,840	702,398	729,840	702,398
Total program expenses	830,488	1,006,440	729,840	702,398	1,560,328	1,708,838
Change in Net Assets	\$ 396,188	\$ 190,533	\$ 246,756	\$ 547,725	\$ 642,944	\$ 738,258

During the past fiscal year, governmental activities revenues increased from \$1,196,973 to \$1,302,862 or approximately 9%, while governmental program expenses decreased approximately 10%. This relates to efforts on the part of Village management to increase revenues, while decreasing related costs. Business-type activities revenues decreased approximately 28%, while expenses also decreased by approximately 7%. The significant decrease in revenue relates to a capital contribution of \$520,000 received in fiscal 2003. Excluding this contribution revenue from the 2003 revenue, the business-type activity revenue would have increased by approximately 23%. This increase in charges for services type revenue relates to efforts by Village management to increase service rates to levels more comparative to other municipalities in the region, while continuing the effort to decrease related costs.

Village of Berrien Springs, Michigan

Management's Discussion and Analysis (Continued)

Governmental Activities

Property taxes increased slightly due to valuation increases.

Business-type Activities

The Village's business-type activities consist of the Water and Sewer Fund. We provide water and sewer to residents through Village-owned and operated wells and sewage treatment plant.

Water Fund:

- A Water and Sewer Rate Study was completed in January of 2003. Using a proposed cost allocation between the customer, commodity, and demand charges an annual increase of approximately 6.0% per year for five years was instituted.
- This year a second water meter for watering lawns and filling swimming pools was begun for those interested.
- A new Well (#7) was installed.

Sewer Fund:

The water and sewer rate study completed in January 2003 recommended an average of 8-10% annual increase in sewer rates over a five-year time span, which was approved. Annual projected surpluses would build back up the sewer fund's cash reserves, which have been depleted.

The wastewater treatment plant is antiquated and equipment replacement and/or repair have increased. The Village is awaiting grant approval to build a new wastewater treatment plant in the near future.

The Village's Funds

Our analysis of the Village's major funds begins on page 14, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Village as a whole. The Village Board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The Village's major funds for 2004 include the General Fund, the Major and Local Streets Funds and the Waste Water and Water Operating Funds.

The General Fund pays for most of the Village's governmental services. The most significant are police and fire, which incurred expenses of approximately \$130,000 in 2004. These two services are operated as jointly governed organizations in conjunction with Oronoko Charter Township, as described in detail in Note 1 of the accompanying Financial Statements.

Village of Berrien Springs, Michigan

Management's Discussion and Analysis (Continued)

General Fund Budgetary Highlights

Over the course of the year, the Village amended the budget to take into account events during the year. The most significant change was to decrease the estimated state shared revenue by \$34,788. This was a result of state-wide budgetary cuts. Village departments overall stayed below budget, resulting in total expenditures \$130,588 below budget. This allowed the General Fund's fund balance to increase from \$1,463,401 a year ago to \$1,611,350 at June 30, 2004.

Capital Asset and Debt Administration

During the year, the Village issued two new short-term debt instruments to finance ongoing construction projects. A bank note for \$107,000 was issued to fund the Rose Hill Lift Station project. This Lift Station was completed during the year and is included in business-type activities capital assets at year-end. In addition, a second bank note was issued in the amount of \$210,000 for the Ferry Street sewer improvements project. This project was ongoing at year-end and is included in business-type activities construction-in-progress at June 30, 2004.

The related Ferry Street improvements were ongoing at the end of the year and are included in governmental activities construction-in-progress at June 30, 2004. Other significant governmental activities capital asset additions during the year were Village Hall office equipment and furniture of approximately \$48,000 and Public Works pickup truck costing approximately \$25,000.

Economic Factors and Next Year's Budgets and Rates

The Village fiscal 2005 budget anticipates additional cuts in state-shared revenue. As described earlier in this letter, the Village has received a CDBG grant of approximately \$340,000 additional grant revenue for fiscal 2005. The Village will match this grant at an additional expense of *approximately \$280,000.

The Village increased water and sewer rates during fiscal 2004 and continues to watch water and sewer revenue and expense trends for possible necessary increases in the future.

Contacting the Village's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Village's finances and to show the Village's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Clerk's office.

Village of Berrien Springs, Michigan

Statement of Net Assets June 30, 2004

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
Assets			
Cash and cash equivalents (Note 3)	\$ 1,163,572	\$ 472,794	\$ 1,636,366
Investments (Note 3)	1,010,103	-	1,010,103
Receivables - (Note 4)	16,006	208,105	224,111
Due from other governmental units	48,548	-	48,548
Internal balances	177,490	(177,490)	-
Prepaid costs and other assets	-	10,499	10,499
Restricted assets - debt service	-	267,056	267,056
Capital assets - Net (Note 5)	1,338,095	3,543,747	4,881,842
Investment in joint venture	164,880	-	164,880
Total assets	3,918,694	4,324,711	8,243,405
Liabilities			
Accounts payable	42,417	80,879	123,296
Accrued and other liabilities	9,478	104,261	113,739
Noncurrent liabilities (Note 7):			
Due within one year	-	343,534	343,534
Due in more than one year	-	557,948	557,948
Total liabilities	51,895	1,086,622	1,138,517
Net Assets			
Invested in capital assets - Net of related debt	1,338,095	2,642,265	3,980,360
Restricted for streets and highways	757,603	-	757,603
Restricted Debt service	-	267,056	267,056
Unrestricted	1,771,101	328,768	2,099,869
Total net assets	<u>\$ 3,866,799</u>	<u>\$ 3,238,089</u>	<u>\$ 7,104,888</u>

Village of Berrien Springs, Michigan

Functions/Programs	Expenses	Charges for Services	Program Revenues	
			Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 178,452	\$ -	\$ 7,372	\$ -
Public safety	177,556	-	33,857	-
Public works	298,389	70,596	180,988	-
Recreation and culture	176,091	135,693	-	-
Total governmental activities	830,488	206,289	222,217	-
Business-type activities - Water and sewer	729,840	962,873	-	-
Total primary government	<u><u>\$ 1,560,328</u></u>	<u><u>\$ 1,169,162</u></u>	<u><u>\$ 222,217</u></u>	<u><u>\$ -</u></u>

General revenues:
 Property taxes
 State-shared revenues
 Unrestricted investment earnings
 Miscellaneous
 Transfers

Total general revenues, special item, and transfers

Change in Net Assets

Net Assets - Beginning of year

Net Assets - End of year

Statement of Activities Year Ended June 30, 2004

Net (Expense) Revenue and Changes in Net Assets

Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (171,080)	\$ -	\$ (171,080)
(143,699)	-	(143,699)
(46,805)	-	(46,805)
(40,398)	-	(40,398)
(401,982)	-	(401,982)
-	233,033	233,033
(401,982)	233,033	(168,949)
583,327	-	583,327
191,842	-	191,842
18,421	13,723	32,144
4,580	-	4,580
-	-	-
798,170	13,723	811,893
396,188	246,756	642,944
3,470,611	2,991,333	6,461,944
\$ 3,866,799	\$ 3,238,089	\$ 7,104,888

Village of Berrien Springs, Michigan

Governmental Funds Balance Sheet June 30, 2004

	General	Major Streets	Local Streets	Total Governmental Funds
Assets				
Cash and investments	\$ 1,416,949	\$ 337,762	\$ 418,964	\$ 2,173,675
Receivables - Net	16,006	-	-	16,006
Due from other governmental units	26,385	15,159	7,004	48,548
Due from other funds	177,490	-	-	177,490
Total assets	\$ 1,636,830	\$ 352,921	\$ 425,968	\$ 2,415,719
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 24,269	\$ 2,577	\$ 15,571	\$ 42,417
Accrued and other liabilities	1,211	-	-	1,211
Total liabilities	25,480	2,577	15,571	43,628
Fund Balances				
Unreserved, reported in:				
General Fund	1,611,350	-	-	1,611,350
Special Revenue Funds	-	350,344	410,397	760,741
Total fund balances	1,611,350	350,344	410,397	2,372,091
Total liabilities and fund balances	\$ 1,636,830	\$ 352,921	\$ 425,968	2,415,719
Amounts reported for governmental activities in the statement of net assets are different because:				
Capital assets used in governmental activities are not financial resources and are not reported in the funds				1,338,095
Investment in joint venture				164,880
Long-term liabilities are not due and payable in the current period and are not reported in funds				(8,267)
Net assets of governmental activities				\$ 3,866,799

Village of Berrien Springs, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2004

	General	Major Streets	Local Streets	Total Governmental Funds
Revenue				
Property taxes	\$ 454,427	\$ -	\$ 128,900	\$ 583,327
State-shared revenues (and grants)	191,842	91,451	89,537	372,830
Licenses and permits	7,372	-	-	7,372
Charges for services	277,410	-	-	277,410
Fines and forfeitures	-	-	-	-
Interest and rentals	11,832	1,029	5,560	18,421
Other	12,255	2,294	3,410	17,959
	<u>955,138</u>	<u>94,774</u>	<u>227,407</u>	<u>1,277,319</u>
Total revenue	955,138	94,774	227,407	1,277,319
Expenditures				
Current:				
General government	203,855	-	-	203,855
Public safety	11,573	-	-	11,573
Public works	-	87,201	174,332	261,533
Recreation and culture	125,985	-	-	125,985
Other	336,875	-	-	336,875
	<u>678,288</u>	<u>87,201</u>	<u>174,332</u>	<u>939,821</u>
Total expenditures	678,288	87,201	174,332	939,821
Excess of Revenue Over Expenditures	276,850	7,573	53,075	337,498
Other Financing Sources (Uses)				
Transfers in	-	51,560	77,341	128,901
Transfers out	(128,901)	-	-	(128,901)
	<u>(128,901)</u>	<u>51,560</u>	<u>77,341</u>	<u>-</u>
Total other financing sources (uses)	(128,901)	51,560	77,341	-
Net Change in Fund Balances	147,949	59,133	130,416	337,498
Fund Balances - Beginning of year	1,463,401	291,211	279,981	2,034,593
Fund Balances - End of year	<u>\$ 1,611,350</u>	<u>\$ 350,344</u>	<u>\$ 410,397</u>	<u>\$ 2,372,091</u>

Village of Berrien Springs, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2004

Net Change in Fund Balances - Total Governmental Funds	\$ 337,498
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	140,616
Governmental funds depreciation	(113,515)
Increase in investment in joint venture	33,857
Increase in accumulated employee vacation pay is recorded when earned in the statement of activities	<u>(2,268)</u>

Change in Net Assets of Governmental Activities	<u>\$ 396,188</u>
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Village of Berrien Springs, Michigan

Proprietary Funds Statement of Net Assets June 30, 2004

	Waste Water	Water Operating	Total Enterprise Funds
Assets			
Current assets:			
Cash and cash equivalents	\$ -	\$ 472,794	\$ 472,794
Receivables - Net	108,555	99,550	208,105
Prepaid costs and other assets	-	10,499	10,499
Total current assets	108,555	582,843	691,398
Noncurrent assets:			
Restricted assets	210,000	57,056	267,056
Capital assets	2,189,517	1,354,230	3,543,747
Total noncurrent assets	2,399,517	1,411,286	3,810,803
Total assets	2,508,072	1,994,129	4,502,201
Liabilities			
Current liabilities:			
Accounts payable	74,217	6,662	80,879
Accrued and other liabilities	6,420	4,883	11,303
Customer deposits payable	-	92,958	92,958
Due to other funds	177,490	-	177,490
Current portion of long-term debt	322,767	20,767	343,534
Total current liabilities	580,894	125,270	706,164
Noncurrent liabilities:			
Long-term debt - Net of current portion	139,017	418,931	557,948
Total liabilities	719,911	544,201	1,264,112
Net Assets			
Investment in capital assets - Net of related debt	1,727,733	914,532	2,642,265
Restricted - Debt Service	210,000	57,056	267,056
Unrestricted	(149,572)	478,340	328,768
Total net assets	\$ 1,788,161	\$ 1,449,928	\$ 3,238,089

Village of Berrien Springs, Michigan

Proprietary Funds

Statement of Revenue, Expenses, and Changes in Fund Net Assets

Year Ended June 30, 2004

	Waste Water	Water Operating	Total Enterprise Funds
Operating Revenue			
Sale of water	\$ -	\$ 403,860	\$ 403,860
Sewage disposal charges	445,026	-	445,026
Hydrant rental	-	15,000	15,000
Interest and penalty charges	3,867	4,724	8,591
Other charges for services	58,409	34,801	93,210
	<u>507,302</u>	<u>458,385</u>	<u>965,687</u>
Total operating revenue	507,302	458,385	965,687
Operating Expenses			
Salaries	102,757	82,535	185,292
Fringe benefits	40,669	35,034	75,703
Utilities	20,665	7,841	28,506
Materials, supplies and freight	16,513	24,716	41,229
Chlorine	11,060	-	11,060
Contractual services	25,472	19,655	45,127
Insurance	5,897	5,334	11,231
Repairs and maintenance	33,375	14,000	47,375
Depreciation and amortization	61,764	49,964	111,728
Administrative fees	30,488	48,512	79,000
Other	32,192	31,773	63,965
	<u>380,852</u>	<u>319,364</u>	<u>700,216</u>
Total operating expenses	380,852	319,364	700,216
Operating Income	126,450	139,021	265,471
Nonoperating Revenue (Expenses)			
Investment income	5,939	7,784	13,723
Interest expense	(7,819)	(24,619)	(32,438)
	<u>(1,880)</u>	<u>(16,835)</u>	<u>(18,715)</u>
Total nonoperating revenue (expenses)	(1,880)	(16,835)	(18,715)
Change in Net Assets	124,570	122,186	246,756
Net Assets - Beginning of year	1,663,591	1,327,742	2,991,333
	<u>1,663,591</u>	<u>1,327,742</u>	<u>2,991,333</u>
Net Assets - End of year	<u>\$ 1,788,161</u>	<u>\$ 1,449,928</u>	<u>\$ 3,238,089</u>

Village of Berrien Springs, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2004

	Waste Water	Water Operating	Total Enterprise Funds
Cash Flows from Operating Activities			
Receipts from customers	\$ 506,623	\$ 448,654	\$ 955,277
Payments to suppliers	(118,533)	(145,132)	(263,665)
Payments to employees	(143,426)	(117,569)	(260,995)
Internal activity - Payments to other funds	34,056	-	34,056
Net cash provided by operating activities	278,720	185,953	464,673
Cash Flows from Capital and Related Financing Activities			
Purchase of capital assets	(718,952)	(47,190)	(766,142)
Capital reimbursement from other governmental unit	340,000	-	340,000
Proceeds from issuance of long-term debt	317,000	-	317,000
Principal and interest paid on capital debt	(13,586)	(45,386)	(58,972)
Net cash used in capital and related financing activities	(75,538)	(92,576)	(168,114)
Cash Flows from Investing Activities			
Interest received	5,939	7,784	13,723
Net cash provided by investing activities	5,939	7,784	13,723
Net Increase in Cash and Cash Equivalents	209,121	101,161	310,282
Cash and Cash Equivalents - Beginning of year	879	428,689	429,568
Cash and Cash Equivalents - End of year	<u>\$ 210,000</u>	<u>\$ 529,850</u>	<u>\$ 739,850</u>
Balance Sheet Classification of Cash and Cash Equivalents			
Cash and investments	\$ -	\$ 472,794	\$ 472,794
Restricted cash (Note 3)	210,000	57,056	267,056
Total cash and cash equivalents	<u>\$ 210,000</u>	<u>\$ 529,850</u>	<u>\$ 739,850</u>
Reconciliation of Operating Income to Net Cash from Operating Activities			
Operating income (loss)	\$ 126,450	\$ 139,021	\$ 265,471
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Depreciation and amortization	61,764	49,964	111,728
Changes in assets and liabilities:			
Receivables	(679)	(469)	(1,148)
Other assets	-	875	875
Accounts payable	57,129	5,824	62,953
Deposits payable	-	(9,262)	(9,262)
Due to other funds	34,056	-	34,056
Net cash provided by (used in) operating activities	<u>\$ 278,720</u>	<u>\$ 185,953</u>	<u>\$ 464,673</u>

Noncash investing, Capital and Financing Activities - During the year ended June 30, 2004, the Water and Sewer Fund did not have any noncash activities.

Village of Berrien Springs, Michigan

Notes to Financial Statements June 30, 2004

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Village of Berrien Springs, Michigan (the "Village") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Village of Berrien Springs, Michigan:

Reporting Entity

The Village of Berrien Springs, Michigan is governed by an elected seven-member council. In accordance with accounting principles generally accepted in the United States, there are no component units to be included in these financial statements.

Jointly Governed Organizations

The fire department, not a legally separate entity, of the Village is jointly operated with Oronoko Township. All fire expenditures are shared between the two units. The Village's share of capital assets is included in the governmental activities capital assets on the government-wide statement of net assets.

The Village, along with Oronoko Township, is a member of the Berrien Springs – Oronoko Township Police Department. On dissolution of the Police Department, the net assets will be shared on a prorated basis as follows: 40 percent to the Village of Berrien Springs and 60 percent to Oronoko Charter Township. The Police Department is governed by an administrative board of five members consisting of three members from the Township and two members from the Village. The Village's share of capital assets is included in the governmental activities capital assets on the government-wide statement of net assets. The Village's equity interest in the Police Department at December 31, 2003 (the Police Department's year-end) is \$164,880 and is included on the government-wide statement of net assets as Investment in Joint Venture. Complete financial statements for the Police Department can be obtained from the Police Department administrative offices at 4583 Snow Road, Berrien Springs, MI 49103.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

Village of Berrien Springs, Michigan

Notes to Financial Statements June 30, 2004

Note 1 - Summary of Significant Accounting Policies (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund, fiduciary fund, and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Village considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, district court fines, and interest associated with the current fiscal period. Conversely, if applicable, special assessments and federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability.

Village of Berrien Springs, Michigan

Notes to Financial Statements June 30, 2004

Note 1 - Summary of Significant Accounting Policies (Continued)

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The Village reports the following major governmental funds:

General Fund - The General Fund is the Village's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Major Streets - The Major Streets Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on major streets.

Local Streets - The Local Streets Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on local streets.

The Village reports the following major proprietary funds:

Waste Water Fund - The Waste Water Fund accounts for the activities of the sewage collection system.

Water Fund - The Water Fund accounts for the activities of the water distribution system.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Village has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Village's water/waste water function and various other functions of the Village. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Note 1 - Summary of Significant Accounting Policies (Continued)

Village of Berrien Springs, Michigan

Notes to Financial Statements June 30, 2004

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Waste Water Funds also recognize the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Property Tax Revenue

Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on September 16, at which time penalties and interest are assessed.

The 2003 taxable valuation of the Village totaled \$36,995,013 million on which taxes levied consisted of 10.5391 mills for operating purposes and 3.4539 mills for street repair and maintenance. This resulted in \$454,427 for operating and \$128,900 for street repair and maintenance. These amounts are recognized in the respective General and Special Revenue Funds financial statements as tax revenue.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income from the General Fund, Special Revenue, and Enterprise Funds are generally allocated to each fund using a weighted average.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Prepaid Items - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Village of Berrien Springs, Michigan

Notes to Financial Statements June 30, 2004

Note 1 - Summary of Significant Accounting Policies (Continued)

Restricted Assets - The revenue bonds of the Enterprise Funds require amounts to be set aside for debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets, as well as amounts on deposit at the county being held for the construction or debt service of the Village of Berrien Springs, Michigan's water and sewer lines.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Village as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current year, \$6,647 of interest expense was capitalized as part of the cost of assets under construction.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Roads and sidewalks	7 to 25 years
Water and sewer systems	6 to 40 years
Buildings and building improvements	10 to 40 years
Vehicles	5 to 15 years
Equipment	5 to 10 years

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Village of Berrien Springs, Michigan

Notes to Financial Statements June 30, 2004

Note 1 - Summary of Significant Accounting Policies (Continued)

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Comparative Data/Reclassifications - Comparative data is not included in the Village's financial statements.

Note 2 - Stewardship, Compliance, and Accountability

Construction Code Fees - The Village oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The Village charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative surplus or shortfall generated since January 1, 2000 is as follows:

Surplus (shortfall) at July 1, 2003	\$ (33,431)
Current year building permit revenue	7,120
Related expenses:	
Direct costs	<u>(11,573)</u>
Surplus (shortfall) at June 30, 2004	<u><u>\$ (37,884)</u></u>

Village of Berrien Springs, Michigan

Notes to Financial Statements June 30, 2004

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The Village has designated one bank for the deposit of its funds. The investment policy adopted by the Council in accordance with Public Act 196 of 1997 has authorized investments in instruments allowed by Public Act 20.

The Village of Berrien Springs, Michigan's deposits and investment policies are in accordance with statutory authority.

At year end, the deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-type Activities	Total Primary Government
Cash and cash equivalents	\$ 1,163,572	\$ 472,794	\$ 1,636,366
Investments	1,010,103	-	1,010,103
Restricted assets	-	267,056	267,056
Total	<u>\$ 2,173,675</u>	<u>\$ 739,850</u>	<u>\$ 2,913,525</u>

The breakdown between deposits and investments for the Village is as follows:

	Primary Government
Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 1,903,344
Investments in securities, mutual funds, and similar vehicles	1,010,103
Petty cash or cash on hand	<u>78</u>
Total	<u>\$ 2,913,525</u>

Village of Berrien Springs, Michigan

Notes to Financial Statements June 30, 2004

Note 3 - Deposits and Investments (Continued)

Deposits

The bank balance of the Village's deposits is \$1,921,755, of which \$100,000 is covered by federal depository insurance and \$1,821,755 is uninsured and uncollateralized. The Village believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Village evaluated each financial institution with which it deposits Village funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Investments

Investments are categorized into these three categories of credit risk:

Category 1 - Insured or registered, with securities held by the Village or its agent in the Village's name;

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Village's name; and

Category 3 - Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Village's name.

The Village held Category three U.S. government securities, with a carrying value of \$1,010,103 as of June 30, 2004.

Note 4 - Receivables

Receivables as of year end for the Village's individual major funds in the aggregate are as follows:

	General Fund	Major Street Fund	Local Street Fund	Waste Water Fund	Water Operating Fund	Total
Receivables:						
Accounts	\$ 16,006	\$ -	\$ -	\$ 108,555	\$ 99,550	\$ 224,111
Intergovernmental	26,385	15,159	7,004	-	-	48,548
Net receivables	<u>\$ 42,391</u>	<u>\$ 15,159</u>	<u>\$ 7,004</u>	<u>\$ 108,555</u>	<u>\$ 99,550</u>	<u>\$ 272,659</u>

Village of Berrien Springs, Michigan

Notes to Financial Statements June 30, 2004

Note 5 - Capital Assets

Capital asset activity of the Village's governmental and business-type activities was as follows:

	Balance July 1, 2003	Additions	Disposals and Adjustments	Balance June 30, 2004
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 288,641	\$ -	\$ -	\$ 288,641
Construction in progress	-	59,041	-	59,041
Subtotal	288,641	59,041	-	347,682
Capital assets being depreciated:				
Parking lots	96,747	-	-	96,747
Buildings and improvements	677,793	-	-	677,793
Vehicles	332,437	33,063	44,690	320,810
Office furnishings and equipment	625,836	48,512	15,689	658,659
Subtotal	1,732,813	81,575	60,379	1,754,009
Accumulated depreciation:				
Parking lots	66,250	2,438	-	68,688
Buildings and improvements	230,186	17,936	-	248,122
Vehicles	156,905	23,870	44,690	136,085
Office furnishings and equipment	257,119	69,271	15,689	310,701
Subtotal	710,460	113,515	60,379	763,596
Net capital assets being depreciated	1,022,353	(31,940)	-	990,413
Net capital assets	\$ 1,310,994	\$ 27,101	\$ -	\$ 1,338,095

Village of Berrien Springs, Michigan

Notes to Financial Statements June 30, 2004

Note 5 - Capital Assets (Continued)

Business-type Activities	Balance July 1, 2003	Additions	Disposals and Adjustments	Balance June 30, 2004
Capital assets not being depreciated:				
Land	\$ 299,830	\$ -	\$ -	\$ 299,830
Construction in progress	<u>772,172</u>	<u>83,496</u>	<u>-</u>	<u>855,668</u>
Subtotal	1,072,002	83,496	-	1,155,498
Capital assets being depreciated:				
Water and sewer distribution systems	3,927,437	222,540	94,159	4,055,818
Buildings and building improvements	93,654	-	-	93,654
Vehicles	99,994	-	-	99,994
Machinery and equipment	199,247	13,065	-	212,312
Subtotal	4,320,332	235,605	94,159	4,461,778
Accumulated depreciation:				
Water and sewer distribution systems	1,794,902	92,903	94,159	1,793,646
Buildings and building improvements	46,890	3,600	-	50,490
Vehicles	97,424	2,570	-	99,994
Machinery and equipment	<u>117,617</u>	<u>11,782</u>	<u>-</u>	<u>129,399</u>
Subtotal	2,056,833	110,855	94,159	2,073,529
Net capital assets being depreciated	<u>2,263,499</u>	<u>124,750</u>	<u>-</u>	<u>2,388,249</u>
Net capital assets	<u>\$ 3,335,501</u>	<u>\$ 208,246</u>	<u>\$ -</u>	<u>\$ 3,543,747</u>

Village of Berrien Springs, Michigan

Notes to Financial Statements June 30, 2004

Note 5 - Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

General government	\$	22,230
Public safety		34,731
Public works		19,579
Recreation and culture		<u>36,975</u>

Total governmental activities	\$	<u>113,515</u>
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Business-type activities:

Water	\$	49,091
Sewer		<u>61,764</u>

Total business-type activities	\$	<u>110,855</u>
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Construction Commitments - The Village has one active construction project at year end. The Village's commitments with contractors are as follows:

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Street project	<u>\$ 78,179</u>	<u>\$ 263,021</u>
Total	<u>\$ 78,179</u>	<u>\$ 263,021</u>

Village of Berrien Springs, Michigan

Notes to Financial Statements June 30, 2004

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Water Fund	\$ 177,490
This balance results from the Water Fund overdrawing its share of cash from the Village's pooled cash arrangement.		

Interfund transfers reported in the fund financial statements are comprised of the following:

Fund Providing Resources	Fund Receiving Resources	Amount
General Fund	Major Streets Fund	\$ 51,560
General Fund	Local Streets Fund	77,341
Total		<u>\$ 128,901</u>

The transfers from the General Fund to the major and local street funds represent the use of unrestricted resources to finance those programs, in accordance with budgetary authorizations.

Village of Berrien Springs, Michigan

Notes to Financial Statements June 30, 2004

Note 7 - Long-term Debt

The Village issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the Village. County contractual agreements and installment purchase agreements are also general obligations of the government. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
Business-type Activities					
General obligation bonds:					
Water and sewer general obligation bonds					
Amounts of issue: \$330,614					
Maturing through: 2020	4.70% - 5.65%	\$ 296,016	\$ (11,534)	\$ 284,482	\$ 11,534
County Contractual Obligations -					
Rose Hill Lift Station note agreement					
Amounts of issue: \$107,000					
Maturing through: 2005	2.95%	-	107,000	107,000	107,000
Ferry Street Sewer note agreement					
Amounts of issue: \$210,000					
Maturing through: 2005	1.84%	-	210,000	210,000	210,000
Revenue bonds -					
Water revenue bonds					
Amounts of issue: \$415,000					
Maturing through: 2016	4.70% - 5.50%	315,000	(15,000)	300,000	15,000
Total business-type activities		<u>\$ 611,016</u>	<u>\$ 290,466</u>	<u>\$ 901,482</u>	<u>\$ 343,534</u>

Village of Berrien Springs, Michigan

Notes to Financial Statements June 30, 2004

Note 7 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

	Business-type Activities		
	Principal	Interest	Total
2005	\$ 343,534	\$ 37,466	\$ 381,000
2006	31,532	29,408	60,940
2007	31,532	27,846	59,378
2008	35,378	26,252	61,630
2009	40,378	24,298	64,676
2010 - 2014	219,578	88,502	308,080
2015 - 2019	172,642	29,833	202,475
2020	26,908	1,519	28,427
Total	<u>\$ 901,482</u>	<u>\$ 265,124</u>	<u>\$ 1,166,606</u>

Note 8 - Risk Management

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Village participates in the Michigan Municipal League risk pool for claims relating to all risks.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Village of Berrien Springs, Michigan

Notes to Financial Statements June 30, 2004

Note 9 - Pension Plan

The Village participates in the Michigan Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers all employees of the Village. The system provides retirement, disability and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way., Lansing, MI 48917.

The obligation to contribute to and maintain the system for Police and Fire employees was established by negotiation with the Village's competitive bargaining unit and requires a contribution from the employees of .6 percent of gross wages and for General employees was adopted by the Village's council and requires a contribution of zero percent of gross wages.

For year ended June 30, 2004 the Village's annual pension cost of \$0 for the plan was equal to the Village's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2003, using the entry age actuarial cost method. Significant actuarial assumptions used include (a) an 8.0 percent investment rate of return, (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation, (c) additional projected salary increases of 0.0 percent to 4.16 percent per year, depending on age, attributable to seniority/merit, and (d) no increase after retirement. The actuarial value of assets was determined using techniques that smooth the effects of short term volatility over a four year period. The unfunded actuarial liability is being amortized as a level percentage of payroll.

Village of Berrien Springs, Michigan

Notes to Financial Statements June 30, 2004

Note 9 - Pension Plan (Continued)

	Fiscal Year Ended June 30		
	2002	2003	2004
Annual pension costs (APC)	\$ -	\$ -	\$ -
Percentage of APC contributed	-	-	-
Net pension obligation	-	-	-

	Actuarial Valuation as of December 31:		
	2001	2002	2003
Actuarial value of assets	\$ 1,954,687	\$ 1,948,155	\$ 2,042,915
Actuarial Accrued Liability (entry age)	1,755,785	1,823,186	1,845,133
Overfunded ALL	198,902	124,969	197,782
Funded ratio	111.3%	106.9%	110.7%
Covered payroll	706,083	700,140	677,448
UAAL as a percentage of covered payroll	(28.17%)	(17.85%)	(29.20%)

Note 10 - Accounting and Reporting Change

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. The Village of Berrien Springs has applied the provisions of this statement in the accompanying financial statements (including the notes to the financial statements). The Village has elected only to implement the general provisions of the statement. Certain significant changes in the statement include the following:

- A Management's Discussion and Analysis (MD&A) section providing an analysis of the Village's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the Village's activities, including infrastructure (roads, bridges, etc.).
- Capital assets in the governmental activities column of the statement of net assets includes assets totaling approximately \$2,100,000 that would previously have been reported in the General Fixed Assets Account Group.
- Capital assets at July 1, 2003 previously reported in the General Fixed Assets Account Group have been adjusted by approximately \$90,000 to reflect the historical cost of the Village's capital assets at that date.

Required Supplemental Information

Village of Berrien Springs, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ 1,463,401	\$ 1,463,401	\$ 1,463,401	\$ -
Resources (Inflows)				
Property taxes	412,000	412,000	454,427	42,427
State sources	231,969	197,181	191,842	(5,339)
Licenses and permits	2,110	2,110	7,372	5,262
Charges for services	262,000	262,000	277,410	15,410
Fines and forfeitures	7,000	1,000	-	(1,000)
Interest and rentals	25,650	25,650	11,832	(13,818)
Other	38,050	33,550	12,255	(21,295)
Amounts available for appropriation	978,779	933,491	955,138	21,647
Charges to Appropriations (Outflows)				
General government:				
Village council	71,620	71,660	68,355	3,305
Village president	9,600	9,600	6,699	2,901
Village clerk	50,478	47,478	42,295	5,183
Elections	1,350	1,309	1,262	47
Village treasurer	9,332	8,757	8,440	317
Administration	88,487	78,487	57,350	21,137
Village hall and grounds	36,660	22,160	19,454	2,706
Public safety	11,995	11,995	11,573	422
Public works	25,408	25,408	-	25,408
Recreation and culture:				
Shamrock park	129,513	128,898	120,829	8,069
Grove and wolf's prairie park	4,415	5,370	5,520	(150)
Other:				
Community services	342,225	339,155	265,874	73,281
Capital improvements	75,000	75,000	70,637	4,363
Transfers to other funds	112,500	112,500	128,901	(16,401)
Total charges to appropriations	968,583	937,777	807,189	130,588
Fund Balance - End of year	\$ 1,473,597	\$ 1,459,115	\$ 1,611,350	\$ 152,235

Village of Berrien Springs, Michigan

Required Supplemental Information Budgetary Comparison Schedule Major Street Fund Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ 291,211	\$ 291,211	\$ 291,211	\$ -
Resources (Inflows)				
State sources	85,214	85,214	91,451	6,237
Interest income	-	-	1,029	1,029
Other	-	-	2,294	2,294
Transfer from other funds	<u>52,429</u>	<u>52,429</u>	<u>51,560</u>	<u>(869)</u>
Amounts available for appropriation	137,643	137,643	146,334	8,691
Charges to Appropriations (Outflows)				
Routine street maintenance	84,090	79,741	63,932	15,809
Tree/shrub maintenance	22,192	22,147	11,746	10,401
Traffic services	845	4,122	1,404	2,718
Winter maintenance	5,795	5,725	5,570	155
Administration	3,910	3,910	3,455	455
Drainage	-	1,049	1,094	(45)
Total charges to appropriations	116,832	116,694	87,201	29,493
Fund Balance - End of year	<u>\$ 312,022</u>	<u>\$ 312,160</u>	<u>\$ 350,344</u>	<u>\$ 38,184</u>

Village of Berrien Springs, Michigan

Required Supplemental Information Budgetary Comparison Schedule Local Street Fund Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ 279,981	\$ 279,981	\$ 279,981	\$ -
Resources (Inflows)				
Property taxes	126,000	126,000	128,900	2,900
State sources	50,300	50,300	89,537	39,237
Interest income	-	-	5,560	5,560
Other	-	-	3,410	3,410
Transfer from other funds	<u>78,645</u>	<u>78,645</u>	<u>77,341</u>	<u>(1,304)</u>
Amounts available for appropriation	254,945	254,945	304,748	49,803
Charges to Appropriations (Outflows)				
Routine street maintenance	168,849	163,774	156,577	7,197
Tree/shrub maintenance	3,775	3,742	4,896	(1,154)
Traffic services	550	2,411	685	1,726
Winter maintenance	3,980	5,612	5,377	235
Administration	5,895	5,895	5,309	586
Drainage	<u>-</u>	<u>1,419</u>	<u>1,488</u>	<u>(69)</u>
Total charges to appropriations	183,049	182,853	174,332	8,521
Fund Balance - End of year	<u>\$ 351,877</u>	<u>\$ 352,073</u>	<u>\$ 410,397</u>	<u>\$ 58,324</u>

Village of Berrien Springs, Michigan

Note to Required Supplemental Information

June 30, 2004

Note - Budgetary Information

Budgetary Information - Annual budgets are prepared by the Finance Committee on a basis consistent with generally accepted accounting principles for the General Fund and all Special Revenue Funds and adopted by the Village Council. Subsequent amendments are approved by the Village Council.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the department level.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

Excess of Expenditures Over Appropriations in Budgeted Funds - The Village did not have significant expenditure budget variances.

Village of Berrien Springs, Michigan

List of fields to be inserted throughout report:

Bookmark name	Values (Hit [Insert] [Field], Choose 'Ref', 'Options'; Select the bookmark name, then select switch "\h")
Name	Village of Berrien Springs, Michigan
Name Formal	Village of Berrien Springs, Michigan (See directions below:)
NamePossessive	Village of Berrien Springs, Michigan's
ShortName	Village
ShortNamePossessive	Village's
Year End	June 30, 2004
Prior Year	June 30, 2003
Opinion Date	September 23, 2004
Examples of how to use the "Name Formal" field:	Cities, Villages & Counties: Village of Sample, Michigan
	Townships: Charter Township of Sample, Sample County, Michigan

Use [Shift] [Enter] to create the new line



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To the Village Council
Village of Berrien Springs
Berrien Springs, Michigan 49103

In planning and performing our audit of the financial statements of the Village of Berrien Springs for the year ended June 30, 2004, we considered the Village's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements. The consideration we gave to the internal control structure was not sufficient for us to provide any form of assurance on it. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions are significant deficiencies in the design or operation of the internal control structure that have come to our attention and, in our judgment, could adversely affect the Village's ability to record, process, summarize, and report financial data consistent with management's assertions inherent in the financial statements. This report contains one item considered to be reportable conditions (see Control Over Manual Journal Entries), as defined above, as well as other items we feel warrant your consideration.

NEW REPORT FORMAT

As you are probably aware, the format of this year's financial statements looks slightly different than in years past. During 2003/2004, the Village adopted the requirements of the new Governmental Accounting Standard Board Standard #34. Most noticeably, your financial statements begin with a new section, Management Discussion and Analysis. Other changes involve the equity portion of the Statement of Net Assets, format changes to both the Statement of Net Assets and Statement of Cash Flows, and several changes to the Notes to Financial Statements. We would be happy to discuss these changes further at your convenience.

FINANCIAL OVERVIEW

During the year ended June 30, 2004, the Village's overall financial condition continued to improve with each fund experiencing a net increase for the year. Approximate Fund balances/Retained Earnings as of June 30, 2004 are as follows: General Fund - \$1,611,000, Major Streets - \$350,000, Local Streets - \$410,000, Water Fund - \$1,450,000, and Waste Water Fund - \$1,788,000. In the General Fund, Street Funds, and Proprietary Funds excess revenue over expenditures exceeded budgeted amounts by \$145,000, \$95,000, and \$110,000, respectively. We compliment the Council on their sound budgeting practices and planning processes. By maintaining a strong General Fund fund balance, the Village is able to adjust to financial changes without the need for drastic reactions to adverse circumstances.

CONTROL OVER MANUAL JOURNAL ENTRIES

Through our discussions with management, it was noted that all manual journal entries are initiated, entered and reviewed by the same person. We recommend an independent review of all manual entries and related documentation on a monthly basis. This will strengthen the Village's internal controls.

WASTE WATER FUND CASH DEFICIT

For the fifth year in a row, the Waste Water Fund has ended the year with a negative operating cash balance. The fund was able to increase fund balance this year by approximately 125,000. The Village re-evaluated user charges during the year and increased rates significantly to more adequately cover operating costs. However, the fund continues to show a negative cash balance at the end of the year. If this negative cash balance cannot be recovered in the near future, the Waste Water Fund should execute a formal note with the General Fund and begin to pay interest on this "borrowed" money.

OLD OUTSTANDING CHECKS

During our testing of the June 30, 2004 bank reconciliation, we noted several old outstanding checks from previous years. We recommend that the Village consider following up on these checks and making appropriate adjustments.

ACCOUNTS RECEIVABLE/BILLING SYSTEM

It was noted during the audit that the customer accounts receivable trial balance is not reconciled to the general ledger on a monthly basis. We recommend that this reconciliation be prepared monthly and that any differences be investigated.

In addition, we noted several small negative customer balances in the billing system. Through discussions with Village personnel, it was determined that these probably relate to previously refunded customer advances. The old billing system, which was replaced during the year, did not properly zero-out customer balances when these refunds were made. We recommend that the Village clean-up these old negative account balances.

STATE SHARED REVENUE

State shared revenue accounts for approximately 20% of the Village's total General Fund revenue. Because of slower than anticipated growth in the State's sales tax collections (the sole source of revenue sharing payments to local units of government) and the State's budget problems which have resulted in additional appropriation reductions to the revenue sharing line item in the State's budget, revenue sharing payments for the last several years have been lower than anticipated.

Although sales tax revenue would support an increase to total state shared revenue payments, the State's budget situation remains troublesome at best. As you are probably aware, the Governor's budget for the State's 2004/2005 fiscal year contains a provision to not pay counties statutory revenue sharing (the counties' only source of revenue sharing). Instead, the counties will change their property tax levy date for their operating millage from December to July (beginning in 2005). A portion of the additional funds generated from the early property tax levy will be used by the counties over a multiple year period to replace statutory revenue sharing that will not be paid by the State. The plan calls for the return of statutory revenue sharing for the counties when their restricted monies from the early levy run out. A key part to this plan allows the State to hold revenue sharing payments to cities, villages and townships for the State's 2004/2005 fiscal year at the prior year levels. This plan was recently approved by the Michigan legislature and signed by the Governor.

STATE SHARED REVENUE (Continued)

It is generally acknowledged that the State's budget woes will continue for several more years. The Governor recently announced that another \$500 million shortfall exists for the State's 2005/2006 fiscal year budget (the State's 2005/2006 fiscal year budget will be introduced by the Governor in early 2005). Also, during October 2004, the Governor announced that her administration may introduce a significant tax restructuring proposal shortly. Specific details of the proposal have not been formally announced and the impact on significant revenue sources to local governments, such as personal property taxes and revenue sharing, is not known. As a result of the continuing uncertainty with the State's budget situation and other potential developments with changes to State's tax structure, we continue to urge the Village to be very conservative in its estimation of state shared revenue as this line item in the State's budget remains vulnerable.

The table below details state shared revenue for the Village over the past five years broken out by statutory and constitutional portions. In addition, it details the total decrease in state shared revenue experienced by the Village compared to the State's fiscal year 2000.

<u>State Fiscal Year</u>	<u>Statutory</u>	<u>Constitutional</u>	<u>Total</u>	<u>Increase (Decrease) from 2000</u>
2000	\$ 82,860	\$ 130,627	\$ 213,487	\$ -
2001	\$ 95,080	\$ 120,828	\$ 215,908	\$ 2,421
2002	\$ 88,215	\$ 122,060	\$ 210,275	\$,212)
2003	\$ 81,675	\$ 124,127	\$ 205,802	\$ (7,685)
2004	\$ 62,188	\$ 122,777	\$ 184,965	\$ (28,522)

We will continue to update the Village as developments occur.

PROPERTY ASSESSMENT CAP

As you recall, Proposal A limits the growth in taxable value to the lesser of inflation or 5 percent. The inflation factor for this calculation is published by the State Tax Commission and is:

2004	2.3%
2003	1.5%
2002	3.2%
2001	3.2%
2000	1.9%
1999	1.6%
1998	2.7%
1997	2.8%
1996	2.8%
1995	2.6%
1994	3.0%

The 2003 inflation factor was used for property taxes levied in the Village's fiscal year ended June 30, 2004. Property taxes are the Village's largest source of General Fund revenue. However, as indicated above, growth in existing property can be significantly limited due to Proposal A. This factor should be considered when the Village is performing long-term financial planning.

PROPERTY ASSESSMENT CAP (Continued)

Also, as you probably recall, the Headlee Amendment to the Michigan Constitution limits the amount of taxes that can be levied by the Village. In general terms, if growth on the Village's existing property tax base exceeds inflation for a particular year, the Headlee Amendment requires the Village to "roll back" its property tax rate to inflation. Prior to the passage of Proposal A in 1994, during years when the growth on the Village's existing property tax base was less than inflation, the Headlee Amendment allowed the Village to "roll up" its property tax rate and recover from years when the property tax rate was "rolled back". However, subsequent to the passage of Proposal A and as a result of changes made to the State's General Property Tax Act, the Village is no longer allowed to "roll up" its property tax rate in years when growth on its existing tax base is less than inflation.

For the year ended June 30, 2004, the Village's Headlee maximum property tax rate for its operating levy was 10.5391 mills even though Village Charter would allow the Village to levy 12.5000 mills for operations. Because of changes made to the General Property Tax Act in 1994, this reduction in millage rate is permanent absent a Headlee override vote. Additionally, as demonstrated by a recent study published by the Michigan Municipal League (with the participation of the Michigan Townships Association and the Michigan Association of Counties), due to definitional changes made to the General Property Tax Act in 1994, the treatment of uncapped values or the "pop up" amount when a property is transferred or sold (as growth on existing property subject to the Headlee rollback calculation), the downward pressure on millage rates will continue particularly given the significant gap that now exists between taxable value and state equalized value.

HEALTH CARE COSTS

It is our understanding that the State of Michigan may be offering local governments the opportunity to participate in the State's prescription drug program. A presentation was made in September 2004 to introduce this program to local governments. While we have not evaluated the program, the Village may want to consider this option as it evaluates and continues to try to control its health care costs.

We sincerely thank you and appreciate the courtesy and cooperation extended to us by you and Village staff during the audit. We appreciate the opportunity to present these recommendations for your consideration and will be pleased to discuss them further at your convenience. This report is intended solely for the information and use of the Village Council.

Plante & Moran, PLLC

September 23, 2004